ATI OUTPACES THE MARKET WITH TIMELY DELIVERY

OF INNOVATIVE PRODUCTS AND BY SEIZING WORLD MARKETS.

THE END RESULT: PROFITABLE GROWTH.

1996 ANNUAL REPORT

GLOBAL LEADERSHIP IN PC GRAPHICS AND MULTIMEDIA SOLUTIONS TO ENHANCE

THE WAY PEOPLE WORK, PLAY AND COMMUNICATE

01'97

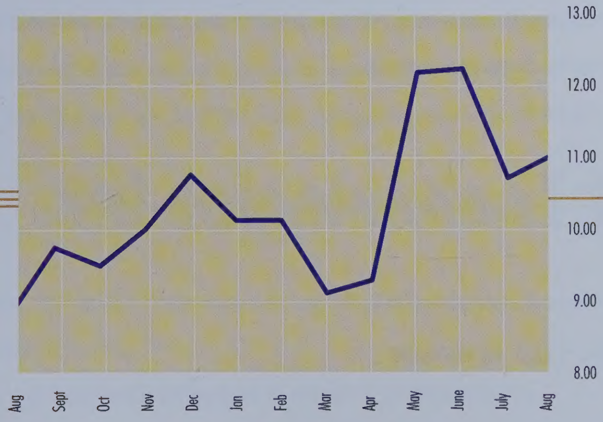
ATI's Annual Meeting
January 9, 1997

The Annual Meeting of Shareholders will be held on Thursday, January 9, 1997 at 3:00 p.m. at the Design Exchange 234 Bay Street Toronto-Dominion Centre Toronto, Ontario M5K 1B2.

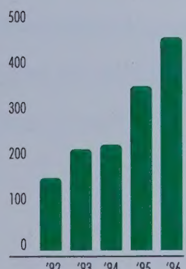
Table of Contents

Financial Highlights

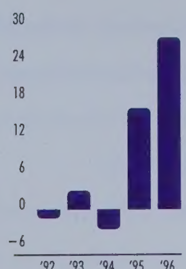
(Thousands of dollars, except per share amounts)	1996	1995	% Change
Income statement			
Sales	**$466,598**	$359,732	29.7%
Net income	**$ 27,347**	$ 15,868	72.3%
Net income per share	**$0.58**	$0.34	70.6%
Balance sheet			
Working capital	**$111,470**	$ 92,655	20.3%
Total assets	**$208,484**	$178,605	16.7%
Shareholders' equity	**$148,149**	$119,301	24.2%
Other			
Current ratio	**2.97:1**	2.65:1	12.1%
Cash flow from operations	**$ 61,503**	$ 19,262	219.3%
Return on equity	**20.5%**	14.3%	43.4%
Closing share price	**$11.00**	$9.00	22.2%
Market capitalization	**$522,458**	$425,430	22.8%



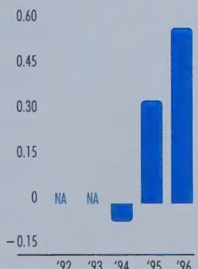
Share Price at Month End – Fiscal 1996
($)



Sales
($ millions)



Net Income (Loss)
($ millions)



Net Income (Loss) Per Share
($)

PRESIDENT'S MESSAGE TO SHAREHOLDERS

Fiscal 1996 marked an important and successful year for ATI Technologies Inc. (ATI).

Two years ago, the Company set its sights on earning a pre-eminent spot in the global graphics market and began transitioning from a board-level company that designs its own ASIC, to an OEM component company that also manufactures its own board-level products. In 1996, ATI advanced much closer toward this target. For example, more than one-fifth of fiscal 1996's sales was attributable to component-level products and principally because of these exceptional products, ATI was awarded a series of significant OEM design wins this past year. In fiscal 1997, the entire Company will operate under this premise: conducting itself as much like a component-level company as it does a board-level company – a distinctive positioning in our industry.

In 1996, ATI also delivered on its objective of becoming a major global player in the PC graphics market. Sales attributable to countries outside of North America accounted for 52% of total Company sales. This 52/48 split fulfills the Company's aim of having the markets beyond North America account for at least 50% of total Company sales. ATI plans to continue to expand its participation in countries inside and outside of the North American continent.

K.Y. Ho
President and CEO

ATI Technologies Inc.

THE YEAR IN REVIEW

FINANCIAL ACCOMPLISHMENTS This year's financial results are the outcome of our concentrated attention to growth and our continuing focus on systems and procedures:

- Sales increased 30% over fiscal 1995, marking $466.6 million and approaching half a billion dollars in revenue;
- Net income climbed 72% to $27.3 million and net income per share rose to 58 cents per share. Both sales and earning levels are historic Company records;
- Gross margin improved to 26.8%;
- Cash flow from operations for the year rose to $61.5 million;
- Inventories also decreased to significant lows. Cash flow, receivables and inventories were positively affected by falling DRAM prices, but also signaled the returns on our initiatives to better monitor and control these balances.

Gaining market share In 1996 ATI gained market share. The Company increased its share in the overall desktop graphics component market from 9.4% to 14.1%[1] and from 15.9% to 16.6%[2] in the overall graphics board market (compiled by unit volumes). A direct consequence of ATI's focus on expanding our geographic reach and extending our product lines, ATI captured significant component market share this year from a virtual standing start two years ago.

New products, new opportunities ATI unveiled its product positioning strategy for the graphics and multimedia markets in fiscal 1996. The Company's marketing strategy is to offer products that fulfill a Category Life Cycle Solution: sustaining our customers' needs as they transfer capabilities from board-level to chip-level (i.e. motherboard) solutions. In 1996, we began to execute against this strategy with our 3D RAGE™ chip – one of the industry's first. In one integrated chip, 3D RAGE combines 3D features with all the capabilities of ATI's award-winning *mach64* 2D accelerators in addition to full-screen, full-motion MPEG video playback. Not complacent with this success, throughout the year ATI's 3D engineering group worked to enhance the chip's features and function, and just days after the conclusion of fiscal 1996, announced its next generation of 3D technology – the 3D RAGE II chip. A companion chip to the 3D RAGE series, the Company next introduced our *ImpacTV*™ chip, a video out capability that permits users to connect their home computers to conventional large-screen TVs.

To satisfy the retail market's need for products, ATI launched in mid-year 3D XPRESSION™, a board-level product that utilizes our 3D RAGE component. On the multimedia front, ATI announced VIDEO XPRESSION™, the first graphics accelerator board to integrate the power of personal computers with the visual appeal of full-motion video. The Company also announced its Macintosh-based boards in 1996: the Xclaim™ 3D, Xclaim VR and Xclaim TV. ATI was the first manufacturer of PCI-based boards for the Mac market, other than Apple itself.

[1] Mercury Research: YTD Q2 1996.
[2] IDC: April 1996 for calendar year 1995.

Improving processes and procedures ATI also progressed in its initiative to implement a Customer Owned Tooling (COT) program, an ASIC design-to-manufacturing process. This program should enable the Company to shorten lead times from initial order through to final shipment; reduce costs; increase manufacturing flexibility; and, improve product quality. ATI under this methodology controls and manages more of the component development and manufacturing cycle, as opposed to full-service ASIC vendors to whom we previously outsourced all of our component requirements. The Company anticipates more than one-half of our ASIC production in 1997 will be produced under the COT program.

Expanding locales To properly serve the Company's growing customer base in Europe, ATI this year established its own customer distribution and support centre in Dublin, Ireland. The new centre provides customers with comprehensive distribution, logistics, support and software manufacturing in European languages and time zones. The business operates under the name ATI Technologies (Europe) Limited and began shipment of products in July of 1996.

In response to the tremendous growth in the Company's products and people, ATI this fall made plans to expand its working facilities and leased additional premises in Thornhill, Ontario, Canada. The new facility,

located close to the present head office, is a 73,000 square foot office building and will accommodate ATI's growth over the next several years. After completing planned renovations, ATI is expected to occupy this second building in early calendar 1997. The Company will continue to operate its head office from 33 Commerce Valley Drive East in Thornhill, Ontario.

Outlook

ATI achieved many of its objectives in 1996. But we always strive to be better. We aim to be the leader: in both chip- and board-level graphics products. We intend to be a contender in multimedia. ATI began in 1985 by being innovative; we shall continue to excel at innovation.

Shortly after the year-end, ATI announced its newest slate of 3D products based on our 3D RAGE II and

ImpacTV chips: the 3D XPRESSION+ PC2TV™ and the 3D PRO TURBO PC2TV™. In the third calendar quarter the Company surpassed the millionth chip hallmark for our 3D RAGE component and cemented the number two spot in 3D components. ATI will continue to deliver more and better products, with more and better integration, with more and better price/performance.

A world-class technology company is only as great as its people. In 1996 our record-setting pace and accomplishments were achieved due to the commitment, hard work and enthusiastic efforts of the people of ATI. We would like to extend a special thanks to all our ATI employees. As ever, we wish to thank our customers, suppliers and members of the Board of Directors for their continuous support and contribution in making fiscal 1996 a remarkable success.

ATI's products are sold in more than 40 countries worldwide.

October 17, 1996

K.Y. Ho
President and CEO

ATI at a Glance

Founded in 1985, ATI Technologies Inc. is recognized as a world leader in supplying affordable, high-quality products for the personal computer (PC) and Macintosh platform markets. These products include graphics accelerators, both boards and components, as well as multimedia hardware and software. The Company's objective is to maintain its leading position by continually introducing a wide range of easy-to-use, technically superior products that are known for their excellent price/performance. ATI employs more than 750 people worldwide, is listed on The Toronto Stock Exchange (TSE:ATY) and is based in a modern 145,000 square foot site on five acres just outside of Toronto, Ontario.

ATI's Head Office

CHIPS & BOARDS

- *2D Graphics*
- *Video Acceleration*
- *3D Graphics*
- *MPEG*

ATI at a Glance

GRAPHICS & MULTIMEDIA

OEM

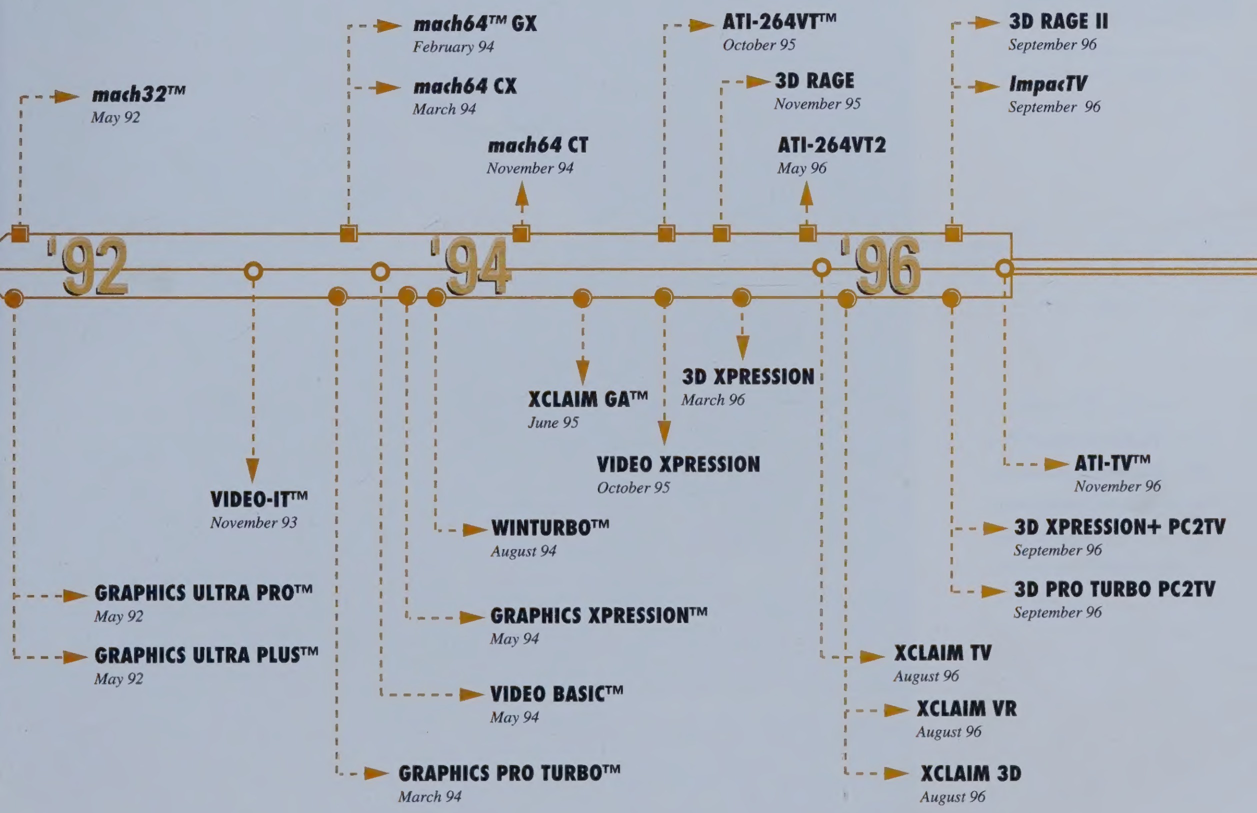
- *Graphics Boards*
- *3D API*
- *MPEG Application*
- *Desktop Application*

Retail

- *PC graphics boards*
- *Graphics boards for systems integrators*

- Component Products
- Multimedia Products
- Graphics Board Products

The Company has offices in Canada, the United States, Germany, Ireland, Japan and the United Kingdom, and works with distributors and resellers worldwide. ATI provides software drivers, marketing collaterals, product manuals, packaging and technical information in 18 languages.



OEM – Original Equipment Manufacturer

ASIC – Application Specific Integrated Circuit

(Dates reflect product announcement dates)

Outpacing the Market

ATI is a world leader in multimedia and graphics acceleration solutions for personal computers. Throughout its 11-year history, ATI has succeeded by developing timely products that meet evolving market requirements and changing customer needs.

ATI develops, manufactures and markets products that appeal to the home, multimedia, small office home office (SOHO), education and corporate markets. The opportunity is vast. Worldwide personal computer shipments in 1996 are forecast by Dataquest Inc. to reach 68 million units, and grow to 100 million units by 1999. The graphics industry will outpace the PC industry, most analysts agree, because most PCs built in 1997 and beyond will have advanced graphics support.

ATI is outperforming its competitors in seizing these market opportunities. The Company's growth rates exceed the industry as a whole, as ATI has gained market share in both component and board-level business. In fact, ATI is the only company in the industry with a double-digit presence in both the component and board segments of the graphics market. ATI has more than doubled its percentage sales share in components, and now ranks as the third largest desktop graphics component company in the world with almost 15%[1] of the market. In graphics boards, ATI has grown to become the second largest board-level company worldwide, with approximately 22%[2] market share (compiled by dollars). Among the first in the industry with a mass market 3D chip in 1996, ATI is now one of the two largest providers of 3D technology for personal computers in the world.

10'95

ATI announces VIDEO XPRESSION, a multimedia accelerator board that features TV-quality video.

ATI does it all

ATI has the widest breadth of multimedia and graphics technology solutions for personal computers. ATI designs its own chips as well as its own boards, and it is this competitive advantage that fuels the Company's position as a market-timing leader. The Company demonstrated this advantage in fiscal 1996 with its 3D and multimedia enhancement solutions. It was one of the first to mass market this technology and it won sizeable early market share.

Another important advantage the Company holds is its strength in software, which ensures that ATI's

[1] Mercury Research: Q2 1996.

[2] IDC: April 1996 for the calendar year 1995.

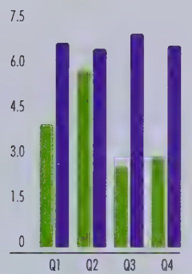
ATI's state-of-the-art testing equipment in the ASIC lab.

11'95

At COMDEX, Las Vegas, ATI announces the 3D RAGE chip, which marries rich 3D with proven 2D accelerators, and adds full-screen, full-motion video to mass market PCs.

64-bit products are backwards compatible. The software drivers and utilities which ATI develops enable the Company's chips and boards to perform flawlessly with major hardware platforms and operating systems. This is particularly attractive to the OEM market, where computer manufacturers seek components that can be seamlessly integrated into their hardware platforms. Software also plays a critical role in current and future multimedia products, such as ATI's newly-released TV tuner, the ATI-TV. This product, which enables customers to manage TV data easily, is largely driven by the capabilities of its software – again developed by ATI.

ATI's strategy is to be pervasive. The Company attacks the market from several flanks. It works with motherboard manufacturers and PC companies to integrate its components into new computers. At the same time, it is also focuses on the add-in board market, where it reaches consumers through a global distribution channel. This winning combination of chips, boards, software and aggressive marketing to both OEM customers and to consumers has positioned ATI as an innovator and leader in mass market needs.



Net Income by Quarter
($ millions)
1995
1996

Expansion and opportunity

The Company has successfully expanded its market share through a two-pronged approach. The first was to grow share in existing markets, such as North America. ATI has achieved this with a combination of landmark OEM contracts, successful new product introductions, and by concentrating on the mass consumer PC market. The second focus was to grow in new markets, notably in Europe. Here, ATI sales topped $140 million for the first time in fiscal 1996, representing 30% of total ATI sales. Also, ATI announced the establishment of a European customer distribution and support centre. The new centre, located in Dublin, Ireland, operates under the name ATI Technologies (Europe) Limited, and provides customers with fast product delivery and comprehensive customer support in European languages and time zones.

Q3'96

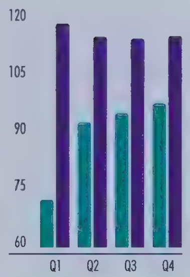
ATI announces contract with IBM to incorporate its 3D RAGE graphics accelerator chip into IBM Aptiva computers sold worldwide.

The Company has also begun to build a foundation for business in the Asian marketplace, where it anticipates it will derive significant revenue growth in fiscal 1997. Sales to the Far East comprised 22% of total Company sales in 1996. ATI has been successful in expanding beyond North America by customizing products for local markets, recognizing that each has unique language, feature and regulatory requirements. ATI's strategy is to develop an appropriate local infrastructure to service native geographic markets. This includes opening sales offices, as well as regional customer distribution and support centres, such as the one in Ireland.

Product leadership

ATI has a history of product innovation and leadership. In 1985, the Company utilized ASIC technology to develop its first graphics controller and introduce its first graphics board product. The Company's products had the unique ability to support all of the standard graphics interfaces, software and monitors in the market at that time. In 1991, ATI introduced the first graphics accelerator board to meet the market's demand for improved graphics and faster overall system performance – needed with the introduction of popular Graphical User Interface (GUI) environments such as Windows and OS/2. One year later, ATI was the first company to bring to market a board-level product featuring an integrated graphics controller.

ATI once again demonstrated its product leadership in 1996 by becoming one of the first companies to mass produce a 3D chip – the ATI 3D RAGE graphics accelerator chip. In one integrated chip, 3D RAGE combines 3D features with all of the capabilities of ATI's award-winning *mach64* 2D accelerators in addition to full-screen, full-motion MPEG video playback. As well, the Company also shipped its first 3D board-level product, 3D XPRESSION, which incorporates the 3D RAGE chip. Throughout the year, ATI's 3D engineering group worked to enhance the chip's features and functions. Just days after the conclusion of fiscal 1996, ATI unveiled its second generation of 3D technology. It includes the ATI 3D RAGE II chip and the next generation of 3D RAGE II-based products, the ATI 3D XPRESSION+ PC2TV and the ATI 3D PRO TURBO PC2TV. As well, ATI announced a companion chip, the *Impac*TV chip for TV-out functionality, and became the first to market with a board product highlighting this immediately popular PC on your TV feature.



Sales by Quarter
($ millions)

03'96

ATI announces 3D XPRESSION, a board-level product that utilizes the advanced features of its 3D RAGE chip.

With 3D XPRESSION, ATI also unveiled VIDEO XPRESSION, a multimedia accelerator board designed for the consumer PC market. VIDEO XPRESSION is the first graphics accelerator board to truly integrate the power of personal computers with the visual appeal and communications powers of full-motion video. The board is based on the ATI-264VT, an advanced, fully-featured 64-bit multimedia accelerator, announced in October 1995. Later in the year, the Company announced XCLAIM VR for PCI enabled PowerMac systems, a 3D graphics and multimedia accelerator that brings arcade-quality, big screen TV gaming, plus a full suite of multimedia features to the Macintosh platform. All of ATI's product growth in fiscal 1996 was aimed at the high volume mass market, where ATI anticipates sales in the millions for its 3D and multimedia products.

Strength in Relationships

ATI has strong relationships with computer industry giants in hardware, operating systems software, as well as games and software applications developers.

For example, ATI has traditionally worked very closely with Intel Corporation. The relationship solidified in May 1996, when ATI announced it would join the new AGP Implementors Forum to evolve and promote Intel's new Accelerated Graphics Port (AGP) interface specification. As a member of the AGP Implementors Forum, ATI will continue to provide input into the semiconductor and add-in card specification, preparing for the market expansion it will help to create. The AGP specification will significantly improve 3D performance, reduce cost for both corporate and consumer PCs, and help drive the 3D market to new highs.

ATI has made significant inroads with leading PC manufacturers over the years. OEM manufacturers purchase ATI's technology to bring dazzling graphics and multimedia capabilities to new PC buyers right out of the box. During 1996, ATI announced contracts with IBM, NEC, and Sony. These contracts are in addition to long-standing relationships to provide other components to PC manufacturers such as Acer, Apple, AST, Dell, Gateway, and others.

05'96

ATI teams with NEC Corporation to incorporate its 3D RAGE chip in NEC's new line of PowerPlayer personal computers.

IBM now incorporates the market-leading 3D RAGE technology in models of the IBM Aptiva™, one of the best-selling PC brands in the world. The 3D RAGE technology and IBM Aptiva combination brings integrated multimedia experiences, such as 3D, 2D and full-motion video to millions of home PC users. NEC Corporation signed a contract with ATI to incorporate 3D RAGE in NEC's PowerPlayer™ line of personal computers. The PowerPlayer has rich multimedia features for the PC games market. As well, ATI's 3D RAGE technology will provide rich 3D graphics and TV quality full-motion video capabilities to the new Sony PC. Sony, with a long history of excellence in television picture quality, unveiled its entry into the home PC market in June 1996. Called the Vaio™, the Sony PC effectively brings together leading consumer electronic and computer graphics technology.

ATI's state-of-the-art manufacturing facility.

05'96

ATI joins the AGP Implementors Forum to help evolve and promote Intel's new Accelerated Graphics Port (AGP) interface specification that will improve 3D performance, reduce PC costs and drive the 3D market to new highs.

Supporting software initiatives

On the software side, ATI continues to strengthen its relationship with Microsoft, the world's largest software company, by supporting application programming interfaces (API) developed by Microsoft in the 3D arena. In June 1996, ATI announced it will support the new Microsoft Direct3D API. Direct3D will provide a standardized platform under Windows 95 that will unleash a wide variety of exciting and compelling 3D software. In turn, this accelerates the market for ATI's 3D products, which will provide virtual reality graphics, ultra-realistic action games, as well as Internet and business applications.

ATI also worked with Microsoft to reach out to developers of computer games. ATI secured a major sponsorship of the Microsoft Games Developer Seminar, where it presented ATI's gaming vision to more than 1,500 games developers from around the world. ATI has a thorough games developers' support program which provides a complete set of technical and marketing services to maximize game development on 3D RAGE from programming to distribution. Throughout 1996, the leading developers of computer games threw their support behind ATI's 3D technology. Companies such as Activision, Gremlin, Interplay and Psygnosis have embraced the 3D RAGE platform. The world's best-selling games will take advantage of ATI's 3D accelerator

06'96

Sony, a recognized leader in television picture quality, includes the ATI 3D RAGE chip in computers the company unveils for its entry into the home PC market.

products to elevate game play to a new level, delivering a PC gaming experience that is both visually stunning and superior in performance to games played on dedicated consoles.

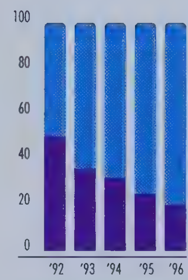
Business exploits graphics

While the games market is blazing new trails in the home market, the developers of next generation software applications for business are recognizing the benefits of multimedia for business presentations, distance learning and other applications. For instance, presentation software has evolved from simple slideshows to personal computer programs that allow users to include video clips, sound and animation. As well, market opportunities exist for ATI in applications such as graphics design, 3D user interfaces and 3D web browsers

for the Internet and corporate intranets. These next generation applications will bring vivid 3D and full multimedia capabilities to the business PC market.

Distribution to consumer markets

On the distribution front, ATI continues to develop its global network of alliances that bring ATI products to the mass consumer retail market. The Company has established distribution channels in all leading world markets, including expansion into South America. These distributors position ATI products with leading national retailers, including superstores and catalogue resellers, which provides ATI with the market visibility necessary to drive retail sales. The Company ramped up its marketing activities in late 1996 and early fiscal 1997 to promote new product offerings for the add-in retail board market. ATI continues to invest in a strong presence in the retail market, whose early acceptance of ATI products and technology often confirms its market directions, resulting in the willingness of large OEM players to purchase ATI products in high volume to satisfy market demands.



Sales by Channel
(% of Sales)

OEM
Distribution

06'96

ATI announces it will support the new Microsoft DirectX API for Windows 95.

Supplier relationships

Yet another partnership vital to ATI's success is the relationships it has with its supplier foundries. ATI has re-engineered its manufacturing process to shorten product delivery times, reduce costs, increase manufacturing flexibility and product quality. Through a program called Customer Owned Tooling (COT), ATI will replace full-service chip vendors with a few specialized vendors, each of whom will satisfy different steps in the production cycle. By implementing this methodology ATI will increase its control over more of the development-to-manufacturing process. The Company anticipates that COT can reduce delivery time for its component products from as much as 14 weeks to as few as seven weeks.

ATI IS THE ENABLER

ATI is once again on the leading edge in the PC graphics and multimedia market, consistent with several successful market transitions in the past. The facilitator for change is the personal computer itself. In the past year alone, the speed of widely marketed, name-brand computers has doubled, from a maximum speed of 100 MHz to 200 MHz. On-board motherboard memory has also shot up. These quantum leaps in power have facilitated enhanced and new applications that customers demand. The applications, therefore, have become the drivers for consumer and business purchases. They include graphics-intensive user interface platforms, such as Windows 95 and Macintosh, sophisticated business applications such as powerful multimedia presentations, dimensional database and spreadsheet applications, World Wide Web tools such as 3D browsers, graphics-intensive Web authoring tools, as well as visually-stunning computer games.

The enablers for the visual PC experience are the ATI chip and board products and the software that supports them. These products revolutionize the presentation and delivery of graphics-intensive software on lightning-fast PCs, helping consumers recognize the stunning brilliance that the PC is capable of delivering.

07'96

ATI announces a customer distribution and support centre for Europe, located in Dublin, Ireland, to speed product delivery and provide comprehensive customer support in European languages and time zones.

What does the future hold? As it has in the past, ATI will identify future market opportunities and shifting computer user needs. The Company will continue to invest in research and development to bring new products to market – at the most opportune time, at the right price, with the right functions. It will concentrate on profitable growth at the component and board levels.

ATI has set its sights on expansion in all major world markets. It will innovate. It will challenge its people to strive to new heights. ATI will outpace the market – once again.

ATI's products are used to create powerful presentations.

08'96

ATI announces XCLAIM VR, a 3D graphics and multimedia accelerator board that brings arcade-quality, big screen TV gaming plus a full suite of multimedia features to PCI enabled Macintosh systems.

Contents

Management's Discussion and Analysis of Operating Results and Financial Position

The following discussion should be read in conjunction with the Company's 1996 Consolidated Financial Statements and accompanying Notes beginning on page 29 of this Annual Report.

Overview

ATI Technologies Inc. (ATI) reported sales of $466.6 million for the year ended August 31, 1996, an increase of 30% over fiscal 1995 sales of $359.7 million and an increase of 101% over fiscal 1994 sales of $232.3 million. Net income of $27.3 million for the year ended August 31, 1996 compares with net income of $15.9 million in fiscal 1995 and a net loss of $2.7 million in fiscal 1994.

The principal reasons for the improvement in operating results evidenced in fiscal 1996 include: the extension of ATI's geographic market penetration to the Far East; the further expansion of ATI's product lines to include high-volume component sales; the favourable impact of a dramatic decline in memory prices in the latter half of the year; a continuing management focus on improving ATI's gross and pre-tax margins; and, the positive impact of new board products introduced during fiscal 1996.

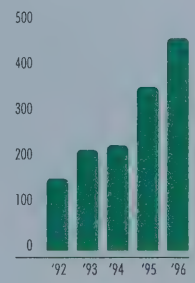
The significant improvement in operating performance in fiscal 1995 was a result of ATI's success in regaining market share in Europe, in expanding sales activities into additional product market segments and in achieving improved controls over selling and administrative expenses, as compared to the previous year.

The principal reasons for the loss reported in fiscal 1994 were: the adverse impact on reported sales and operating results of the unprecedented speed of the industry-wide transition to 64-bit graphics products; delays in the introduction of the Company's *mach64* product line; and, a writedown of $11.5 million to inventory, principally related to excess *mach32* products.

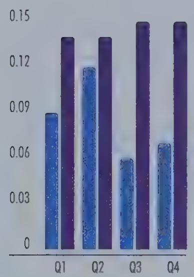
Industry, market and product trends

In fiscal 1995, the PC graphics market witnessed a transition from multiple-component graphics accelerator products to integrated graphics accelerator solutions. During 1995 ATI and all of its major competitors in graphics component design and supply responded to this change and announced their first integrated graphics accelerator products. ATI introduced the ATI-264CT, an advanced modular-design graphics accelerator. The ATI-264CT modular design has been and will continue to be the 2D base for much of ATI's integrated chip technology efforts in fiscal 1996, fiscal 1997 and beyond. Additional product offerings based on the 264CT were announced during 1996, including the ATI-264VT and, ATI's newest integrated controller, the 3D RAGE.

In the fiscal 1995 MD&A, the Company stated that *"ATI is poised to use these new integrated graphics accelerator components as a base to establish itself as a supplier to the value-priced, high-volume OEM component market"*. This comment underscores the fact that, commencing in fiscal 1995, the Company has been undergoing a strategic change in overall direction and operating focus. Specifically, ATI has been repositioning itself in the global computer graphics market to transition from a board product company that designs its own proprietary graphics components, to a graphics component company that also manufactures its own proprietary board-level products. This transition has had a significant impact on the Company's operations in several areas, specifically R&D expenses (see *Expenses* section) and OEM sales. For example, component OEM sales (see *Sales* section) increased both as a percentage of total OEM sales and of total Company sales in fiscal 1996 relative to fiscal 1995.



Sales
($ millions)



Net Income Per Share by Quarter
($)
1995
1996

In the fiscal 1995 MD&A, ATI also noted that *"Management believes that OEM sales will likely continue at or close to three-quarters of total sales and that component sales as a percentage of OEM sales and total sales should increase significantly in fiscal 1996 compared to fiscal 1995."* OEM sales increased as a percentage of total Company sales from 68% in fiscal 1994 to 75% in fiscal 1995 and to 80% in fiscal 1996. Components made up 22% of total Company sales in fiscal 1996 compared with 9% in fiscal 1995.

During fiscal 1996, the Company's R&D group concentrated further on supporting the transition to a high-volume OEM component supplier, and adopted a Customer Owned Tooling (COT) component design process. The COT design process will allow ATI increased design and manufacturing flexibility, in addition to potentially lowering overall product costs. With the introduction of the COT design technology and the Company's focus on high-volume OEM component product capabilities, ATI is positioned to complete the transition to a significant supplier to the value-priced, high-volume OEM component market. (See also discussion under *Component Supply* section).

As mentioned in the prior year's MD&A, management continues to believe that the desktop multimedia market also represents a significant growth opportunity for the Company. R&D efforts in the multimedia product market increased in fiscal 1996 over the previous years and several new multimedia board-level products were introduced. Additional new product announcements with respect to ATI's desktop multimedia hardware and software products will be made early in fiscal 1997.

Management also believes that the lap-top or portables segment of the computer market represents a significant growth opportunity for the Company. From the Company's inception through fiscal 1996, every product introduced by ATI has been targeted exclusively at the desktop segment of the computer market. Recent industry surveys indicate that the lap-top or portables segment of the computer market may be the fastest growing segment of the market over the next few years. As a result, ATI increased its R&D efforts in the lap-top or portables product category in fiscal 1996. New product announcements with respect to ATI's lap-top or portable multimedia graphics component products will be made early in fiscal 1997.

Comparison of operating results for the years ended August 31, 1996, 1995 and 1994

Operating results

The Company's reported operating results have been and will continue to be subject to quarterly and other fluctuations as a result of several factors including, among other things, changing market conditions; changes in pricing policies by competitors and/or suppliers; the availability and cost of the Company's products from suppliers; the addition or loss of significant customers; seasonal customer demand; new product introductions by the Company or its competitors; and, changes in the sales mix both of products sold and the geographic regions where the products are sold.

The Company's reported operating results may vary from prior periods or may be adversely impacted in periods where it is undergoing a

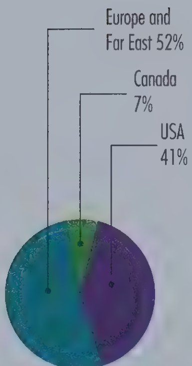
product-line transition when sales of newer products must be ramped up to replace sales of the Company's older products. These older products often come under significant pricing and margin pressure as a result of competitors' actions in the marketplace. If the Company's new products are delayed or do not offer the features and performance required by its customers, operating results may be negatively impacted. As a result of all or any combination of the issues discussed above, the Company's operating results and common share price may be subject to a significant level of volatility, in particular on a quarterly basis.

The following table sets out a comparison of operating results for the three most recent fiscal years and a comparison of the percentage of sales represented by each line item. In 1996 and 1995, the Company reclassified certain salary and other costs from administrative to selling expense. Accordingly, 1995 and 1994's administrative and selling expense have been restated on a comparative basis.

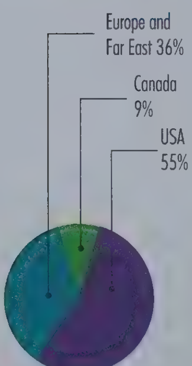
(Thousands of dollars, except per share amounts)	1996		Year ended August 31 1995		1994	
	$	%	$	%	$	%
Sales	**$466,598**	**100.0**	$359,732	100.0	$232,280	100.0
Cost of goods sold	**341,610**	**73.2**	273,144	75.9	183,712	79.1
	124,988	**26.8**	86,588	24.1	48,568	20.9
Expenses						
Selling and marketing	**46,434**	**10.0**	28,735	8.0	28,235	12.2
Research and development	**28,638**	**6.1**	22,447	6.2	15,820	6.8
Administrative	**14,631**	**3.1**	12,104	3.4	9,652	4.2
Interest	**179**	**0.1**	664	0.2	972	0.4
	89,882	**19.3**	63,950	17.8	54,679	23.6
	35,106	**7.5**	22,638	6.3	(6,111)	(2.7)
Interest and other income	**3,683**	**0.8**	1,155	0.3	2,228	1.0
Income (loss) before income taxes	**38,789**	**8.3**	23,793	6.6	(3,883)	(1.7)
Income taxes (recoverable)	**11,442**	**2.4**	7,925	2.2	(1,192)	(0.5)
Net income (loss)	**$ 27,347**	**5.9**	$ 15,868	4.4	$ (2,691)	(1.2)
Net income (loss) per share	**$0.58**		$0.34		$(0.06)	

Sales

Sales in fiscal 1996 increased by $106.9 million, or 30%, over fiscal 1995 and $234.3 million or, 101%, over fiscal 1994. The increase in year-over-year sales reflects: i) the geographic expansion into European and Far Eastern markets; ii) the introduction of several new products; and, iii) the Company's success in penetrating the OEM



1996



1995

Sales by Geography

market, primarily with board-level products, in fiscal 1996 and 1995. Going forward, the Company expects that component-level unit sales to OEM customers will increase as a percentage of total unit sales over prior years' levels. Component sales attract a lower average selling price than board-level products. To the extent that component sales replace board-level sales to existing customers, if total unit sales do not increase in sufficient quantities, the Company's total sales may be adversely impacted. In addition, increasing competition in the computer graphics market has resulted in continuing pressure on pricing and margins for both component and board-level products. To the extent that this competition and price pressure continues, the Company's total sales may be adversely impacted.

Sales to OEM customers continued to increase as a percentage of total Company sales: OEM – 80% and Distribution – 20% in 1996; compared with OEM – 75% (68% in 1994) and Distribution – 25% in 1995 (32% in 1994). Sales by major geographic territory (previous years – 1995, 1994 – in brackets) were as follows: Canada 7% (9% and 12%); USA 41% (55% and 58%); and, Europe and the Far East 52% (36% and 30%). The increase in European and Asian sales as a percentage of total sales is a direct result of ATI's efforts to strengthen its international sales force and to localize the Company's products into all of the major European and Asian languages. These initiatives commenced during fiscal 1995 and continued into fiscal 1996.

In fiscal 1996, no single customer accounted for 10% of total Company sales and the Company's top 10 customers accounted for less than 60% of total Company sales. In fiscal 1995, one large OEM customer accounted for approximately 20% of sales and one other customer accounted for approximately 11% of sales. In fiscal 1994, that same large OEM customer accounted for 21% of sales and no other customer accounted for more than 10% of sales.

Cost of goods sold

Cost of goods sold decreased as a percentage of sales from 75.9% in 1995 (79.1% in 1994) to 73.2% in 1996.

The improvement in cost of goods sold in 1996 relative to 1995 reflects the positive impact of: i) the introduction of ATI's new integrated graphics controllers across the entire product line in fiscal 1996; ii) the positive impact of a series of new component and board-level products during the fiscal year; and, iii) the positive impact of the dramatic decrease in the cost of DRAM and other memory components on ATI's board-level business in the second half of fiscal 1996. ATI managed to retain a portion of this memory price decrease and this is reflected in lower cost of goods sold, more than offsetting the higher percentage of Company sales being comprised by the increasingly competitive OEM board-product market.

Cost of goods sold in 1994 included an $11.5 million inventory writedown related principally to excess *mach32* product inventories. In addition, the delay in introducing the Company's *mach64* products indirectly impacted cost of goods sold, as ATI replaced them with sales of lower-margin 32-bit products, which sold into the lower-end product markets where pricing is more competitive.

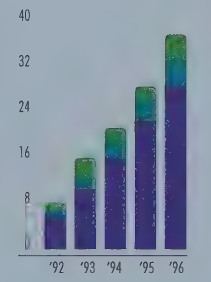
Expenses

Selling and marketing expenses increased significantly in fiscal 1996 over fiscal 1995 in terms of total dollar amount ($17.7 million) and as a percentage of sales – 10.0% in fiscal 1996 versus 8.0% in fiscal 1995. Selling expenses were relatively unchanged in fiscal 1995 compared to fiscal 1994. A significant portion of the increase in total selling and marketing expense reflects the increase in sales and marketing personnel; the increased commission and marketing costs to support the continuing expansion of ATI's geographic sales markets; and, the introduction of the Company's new products in fiscal 1996, in particular the Company's first high-volume OEM component products. Management does anticipate that selling and marketing expenses will continue to increase in total dollars, in order to support anticipated sales growth and continued geographic market expansion.

Research and development expenses increased over fiscal 1995 by approximately 28% ($6.2 million) and 81% ($12.8 million) over fiscal 1994. This increase reflects: additions to R&D staff during the year (303 at August 31, 1996; 251 at August 31, 1995; 204 at August 31, 1994); the subsequent, full-year impact of staff additions made during the prior years; the continued expansion of ATI's R&D activities into the multimedia segment of the graphics market; the increased focus on supporting and implementing the transition to a COT component product design methodology; and, the continuing focus on ATI's core integrated chip technology, which will support ATI's new product development efforts in fiscal 1997 and beyond. Management expects that R&D expenses will continue to increase in total dollars in order to support the Company's product line expansion and anticipated sales growth.

Administrative expenses increased over fiscal 1995 by approximately 21% ($2.5 million), and by 52% ($4.9 million) over fiscal 1994, due to increased expenses incurred by ATI and ATI's European subsidiaries to further strengthen the corporate infrastructure in order to manage the significant growth experienced in fiscal 1996 and 1995. Administrative expenses have, however, continued to decrease as a percentage of sales over the three-year period.

Income tax expense as a percentage of *Income before taxes* declined from 33.3% in the previous year to 29.5% in fiscal 1996. The principal reason for the decline in the Company's effective income tax rate was an increased utilization of loss-carry-forward amounts for Ontario income tax purposes, which offset the higher reported *Income before income taxes* in fiscal 1996, as compared to the previous year. The tax benefit of these loss-carry-forwards had not previously been reflected in the financial statements. (See also note 7 to the *Financial Statements).*



Research and Development
($ millions)

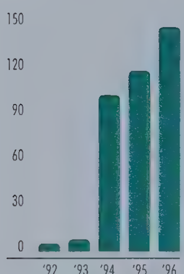
Liquidity and Financial Resources

a) Cash

The Company has a US$30.0 million credit facility with a Canadian chartered bank (US$30.0 million in 1995). ATI had approximately CDN$63.6 million in net cash resources at August 31, 1996 (US$46.6 million) which, in addition to the available operating line of US$30.0 million, provides approximately US$76.6 million of resources available to support ATI's operating objectives in fiscal 1997. Management believes that existing net cash resources and anticipated cash flow from operations will be sufficient to support the Company's projected working capital and capital expenditure requirements, including

the final two installment payments with respect to ATI's investment in the UMC joint venture (discussed below).

Net cash resources (cash and short-term investments less bank indebtedness) have increased from $18.4 million at the end of fiscal 1995 to approximately $63.6 million at the end of fiscal 1996. In essence, ATI converted year-to-date net income ($27.3 million) into cash resources and improved its working capital management, in particular with respect to its investment in inventories. More important, however, the significant reduction in inventory levels in fiscal 1996 reflects a dramatic reduction in memory component prices and a corresponding increase in memory component supply in the second half of the fiscal year. (See also *Inventories* section).



Shareholders' Equity
($ millions)

In fiscal 1996, ATI made the first installment of its investment in the UMC joint venture. (See also note 4 to the *Financial Statements).* This payment, totaling approximately US$7.0 million, was made at the end of the first quarter of fiscal 1996 out of existing cash resources and is reflected in the Company's balance sheet under *Investment in joint venture*. The second payment of US$15.0 million is not anticipated prior to December 1996. The final payment of US$7.5 million is not anticipated until, at the earliest, July 1997. Management has purchased US dollar forward exchange contracts to hedge this total US$22.5 million investment obligation at an equivalent amount of US$20.5 million.

b) Accounts receivable

Accounts receivable increased 12% to $65.4 million at August 31, 1996 from $58.2 million at August 31, 1995, less than the Company's percentage increase in total sales. At August 31, 1996, 99% of accounts receivable were current or less than 60 days outstanding (99% in fiscal 1995 and 96% in fiscal 1994). Export Development Corporation guarantees on outstanding accounts receivable covered approximately 98% of total accounts receivable, compared with 97% of total accounts receivable as at August 31, 1995 and 79% as at August 31, 1994.

c) Inventories

Inventories of $23.7 million at August 31, 1996 were significantly lower than the $55.0 million on hand at August 31, 1995 ($52.0 million at August 31, 1994). Annual inventory turns were 14.0 times in fiscal 1996, compared with 5.0 times in fiscal 1995 and 2.9 times in fiscal 1994, before deducting the $11.5 million inventory writedown (3.5 times after deducting the $11.5 million writedown).

The higher inventory turns in fiscal 1996 reflect the impact of the large decrease in memory prices in the latter half of the fiscal year, compared to the prior year, and the positive impact of improved inventory management systems and controls. Management, however, does not anticipate that the effective level of inventory turns realized in fiscal 1996 is sustainable going forward as the two factors discussed above that reduced inventory levels in fiscal 1996 will likely not have as dramatic an impact in future. In fact, as discussed below, management is of the opinion that inventory levels will likely increase in future given the transition to a COT design and manufacturing technology base. (See *Component Supply* section).

The lower inventory turns in fiscal 1994 reflected a surplus inventory situation, specifically of *mach32* related ASICs and other components in the second half of fiscal 1994, and was a contribut-

ing factor to the decision to provide an $11.5 million inventory writedown in the third quarter of fiscal 1994 against inventory levels at that time.

d) Investment tax credits recoverable and deferred taxes

At the end of fiscal 1995, net debit balances related to timing differences totaled approximately $4.6 million (ITC's of $7.8 million less deferred tax credit balances of $3.2 million). At the end of fiscal 1996, net debit balances related to timing differences totaled approximately $2.0 million (ITC's of $5.8 million less deferred tax credit balances of $3.8 million) – a reduction of $2.6 million during the 1996 fiscal year, resulting from ATI generating taxable income in excess of the amount required to fully offset R&D ITC's generated in fiscal 1996. Management believes that ATI will be able to generate sufficient taxable income in future to fully utilize all ITC's, net of deferred tax credits, recorded at August 31, 1996.

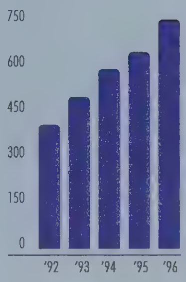
e) Capital assets

Capital additions in fiscal 1996 totaled approximately $8.5 million ($6.5 million in fiscal 1995 and $7.5 million in fiscal 1994). Approximately $1.7 million of these expenditures related to the purchase of production equipment to build the state-of-the-art high speed production line at the head office manufacturing facility, in order to improve operating efficiencies and quality control; and approximately $4.5 million related to purchases of computer software, hardware and COT design tools to support on-going R&D activities (comparable purchases of R&D related capital assets totaled $2.3 million in fiscal 1995 and $2.2 million in fiscal 1994).

Potential risks and uncertainties

General and economic

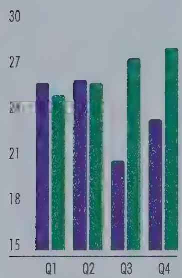
General economic and market conditions will continue to affect the timing, frequency and size of customer orders. A downturn in capital spending or in the market for PCs, significant order cancellations or order rescheduling could also impact ATI's overall sales and operating performance. In addition, as the Company must often order component products and build board-product inventories well in advance of shipment, in order to meet anticipated customer demand, there is a corresponding risk that sales forecasts will not match actual customer demand levels and that the Company will, as a result, produce either excess or insufficient inventories of certain products. Either of these situations could have an adverse impact on sales and operating results.



Employees

Technological change

Most of the Company's product lines are and will continue to be subject to rapid technology and price changes. Several of the Company's customers place orders for many of these products with a short lead time. These customers also generally may change delivery schedules or cancel orders without significant penalties, if any. The ability of the Company's customers to cancel or reschedule orders not only increases the inventory production risk discussed above, but also may adversely impact reported operating results.



Gross Margin by Quarter
(%)
1995
1996

Product and research and development life cycle

In the PC graphics industry, the life cycle of new products will continue to shorten. As existing products mature, they migrate to the lower end of the product line, allowing the Company to offer a full range of products at all price points. The ability to be among the first-to-market with new or enhanced products and to replace existing products, will be increasingly important to ATI in order to take advantage of these shorter market life cycles. In recognition of this, net R&D expenditures have increased by more than $6.2 million (28%) over fiscal 1995 and $12.8 million (81%) over fiscal 1994. Management expects that R&D expenditures will continue to increase on an annual basis in the current fiscal year and beyond, as ATI completes the transition to a supplier of high-volume component products to the OEM market and as ATI continues to expand its product lines.

Component supply

From inception through 1996, the Company has purchased ASIC component inventories for resale or to be added to its board-level products from independent, full service foundries. During 1997, the Company will begin to purchase components in raw material or wafer form and, under the COT design and manufacturing process discussed above, will manage the subcontracting of the ASIC assembly, packaging and test processes. The change in the Company's manufacturing process from a full service basis, where the foundry is responsible for delivering the finished ASIC component, to a COT basis, where the wafer foundry processes the wafer only and ATI is responsible for completing the assembly, packaging and test processes to create ASIC components, will likely require the Company to maintain higher raw material inventory than was the case in previous years. This is because wafer inventory must be purchased immediately prior to beginning production of the Company's components. Management does, however, expect to achieve product cost savings by managing the subcontracting of the assembly, packaging and test processes. In 1997, the Company expects to purchase a substantial portion of its component products in wafer form.

During the year, ATI announced a joint venture agreement with United Microelectronics Corporation (UMC) and other partners, to build and manage a semiconductor manufacturing facility in Taiwan, ROC. UMC is a leader in the design and manufacture of integrated circuits. ATI is making this investment to secure its share of worldwide wafer foundry capacity for the future benefit of its customers. This investment will also increase ATI's access to existing foundry capacity in fiscal 1997 and beyond.

The cyclical nature of the semiconductor industry has, in the past, resulted in shortages of wafer fabrication capacity. The Company's ability to maintain adequate levels of wafer inventories going forward will depend on the Company's ability to obtain a sufficient allocation of wafer production capacity from wafer foundries. Any inability of the Company to secure such allocations in future may adversely affect its ability to meet customer demand for its component and board products and, as a result, could have an adverse impact on sales and operating results.

Foreign exchange

The Company's operating results are reported in Canadian dollars. The majority of the Company's

sales and purchases are generated or incurred in U.S. dollars. The exchange rate between the Canadian and U.S. dollar has varied significantly over the past several years. To the extent that U.S. dollar sales are greater than U.S. dollar purchases in a strengthening or weakening U.S. dollar environment, there is a corresponding positive or negative impact on ATI's income from operations. Management has taken action to reduce this foreign exchange risk by purchasing Canadian dollars forward, thereby fixing the transaction rate for funding Canadian dollar expenses out of U.S. dollar operating cash flows.

Quarterly information

Historically, ATI has shipped more product in the third month of each quarter than in either of the first two months of each quarter. This sales pattern is common in the personal computer industry and is likely to continue. The concentration of sales in the last month of the quarter may cause the Company's quarterly operating results to be more difficult to predict than would otherwise be the case. Any disruption in ATI's production or shipping near the end of a quarter could have a material impact on the Company's net sales for that quarter. In addition, the Company's reliance on outside foundries reduces the Company's ability to control, among other things, component supply levels and delivery schedules.

Forward-looking statements

In addition to the historical information contained herein, this Discussion and Analysis contains several forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties, that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly release the results of any revision to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Reconciliation of reported net income, EPS and shareholders' equity to US GAAP

ATI reports its results of operations in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP). Most of ATI's major competitors are US-based companies that report their operating results in accordance with US Generally Accepted Accounting Principles (US GAAP). Set out below is a reconciliation of ATI's reported net income, net income per share and shareholders' equity for the years ended August 31, 1996 and 1995 in accordance with Canadian GAAP versus what would have been reported if the Company had reported its operating results and net income per share in accordance with US GAAP. Two significant adjustments often required to conform Canadian GAAP to US GAAP financial results are the following:

- implementing SFAS 109 with respect to the reporting of income tax expense, including the cumulative effect thereof; and,
- recognizing the value of executive stock option plans in the income statement over the period of service to which the compensation relates.

The table below summarizes the reconciliation of ATI's reported operating results from a Canadian to a US GAAP basis.

Reconciliation of reported operating results from Canadian to US GAAP

(Thousands of dollars, except per share amounts)	Year ended August 31 1996	1995
Net income, as reported	$ 27,347	$ 15,868
Impact of the valuation of Employee and Director stock option plans over the related period of service (a)	0	0
Impact on reported net income tax of the adoption of SFAS 109 (b)	(2,000)	(800)
Net income, conformed to US GAAP	$ 25,347	$ 15,068
Net income per share, as reported: Basic (c)	$0.58	$0.34
Fully diluted	$0.56	$0.34
Net income per share, conformed to US GAAP: Primary (c)	$0.53	$0.32
Fully diluted	$0.53	$0.32
Deferred tax liability, as reported	$ 3,800	$ 3,200
Deferred tax liability, conformed to US GAAP	$ 3,400	$ 800
Shareholders' equity, as reported	$148,149	$119,301
Shareholders' equity, conformed to US GAAP	$145,349	$118,501

a) Accounting for stock options

Under Canadian GAAP, there is no requirement to record compensation liability or expense upon the grant of stock options. Under US GAAP, a deferred compensation liability is recorded at the date of the grant of the options in an amount equal to the difference between the fair market value of the Company's common shares at the grant date and the exercise price of the option. Compensation expense is recognized in accordance with the vesting period of the option.

The Company grants stock options to employees at an exercise price which is equal to the fair market value of the Company's common shares at the effective grant date. As there is no difference between the fair market value of the common shares and the exercise price of the stock options on the effective grant date, no compensation expense need be recorded.

b) Accounting for income taxes

The Company follows the deferral method of income tax allocation. Under US GAAP, Statement of Financial Accounting Standards No. 109 "Income Taxes" requires that the liability method be used. Under the liability method a deferred income tax asset or liability is recognized based on differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, that will result in taxable or deductible amounts in future years.

c) Net income per share

Under Canadian GAAP, basic net income per share is calculated using the weighted average number of common shares outstanding for the year. Under US GAAP, primary net income per share is calculated using the Treasury Stock method, which reflects the weighted average number of common shares outstanding during the year, plus gives effect to the assumed conversion of all dilutive outstanding share option grants as if such transactions had occurred at the beginning of the year.

Management's Responsibility for Consolidated Financial Statements

Management of ATI is responsible for the integrity of the accompanying consolidated financial statements and all other information in this Annual Report. The financial statements have been prepared by management on a consistent basis in accordance with accounting principles generally accepted in Canada. The preparation of the consolidated financial statements necessarily involves the use of estimates and careful judgment, particularly in those circumstances where transactions affecting a current period are dependent upon future events. All financial information presented in the Annual Report is consistent with the consolidated financial statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting controls which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further ensures the quality of the financial records through careful selection and training of personnel and the adoption and communication of financial and other relevant policies and procedures.

The Board of Directors discharges its responsibilities with respect to the consolidated financial statements primarily through the activities of its Audit Committee, which is composed entirely of directors who are not employees of the Company. This committee meets quarterly with management, and at least annually with the Company's independent auditors to review the Company's reported financial performance and to discuss audit, internal control, accounting policy and financial reporting matters. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

The financial statements have been audited by KPMG, who were appointed by the shareholders at the last Annual General Meeting of Shareholders. Their report is presented herein.

Auditors' Report

To the Shareholders of ATI Technologies Inc.:

We have audited the consolidated balance sheets of ATI Technologies Inc. as at August 31, 1996 and 1995 and the consolidated statements of operations and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants

North York, Canada
October 17, 1996

Consolidated Statements of Operations and Retained Earnings

(Thousands of dollars, except per share amounts)	August 31 1996	1995
Sales	**$466,598**	$359,732
Cost of goods sold	**341,610**	273,144
	124,988	86,588
Expenses		
Selling and marketing (note 11)	**46,434**	28,735
Research and development	**28,638**	22,447
Administrative (note 11)	**14,631**	12,104
Interest	**179**	664
	89,882	63,950
	35,106	22,638
Interest and other income	**3,683**	1,155
Income before income taxes	**38,789**	23,793
Income taxes (note 7)	**11,442**	7,925
Net income	**$ 27,347**	$ 15,868
Net income per share (note 9)	**$0.58**	$0.34
Retained earnings		
Retained earnings – beginning of year	**$ 21,213**	$ 5,345
Net income	**27,347**	15,868
Retained earnings – end of year	**$ 48,560**	$ 21,213

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(Thousands of dollars)	August 31 1996	1995
ASSETS		
Current assets		
Cash and short-term investments	**$ 73,855**	$ 30,845
Accounts receivable	**65,398**	58,175
Inventories (note 2)	**23,681**	54,967
Prepayments and sundry receivables	**5,071**	4,772
Total current assets	**168,005**	148,759
Long-term portion of investment tax credits	**5,770**	7,833
Capital assets (note 3)	**25,321**	22,013
Investment in joint venture (note 4)	**9,388**	—
Total assets	**$208,484**	$178,605
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 5)	**$ 10,270**	$ 12,425
Accounts payable and accrued liabilities	**45,615**	43,479
Taxes payable	**650**	200
Total current liabilities	**56,535**	56,104
Deferred income taxes	**3,800**	3,200
Shareholders' equity		
Share capital (note 6)	**99,589**	98,088
Retained earnings	**48,560**	21,213
Total shareholders' equity	**148,149**	119,301
Total liabilities and shareholders' equity	**$208,484**	$178,605

K.Y. Ho, Director

Paul Fox, Director

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

(Thousands of dollars)	August 31 1996	1995
Cash provided by (used for):		
Operations		
Net income	**$ 27,347**	$ 15,868
Add items not affecting working capital:		
Deferred income taxes	**600**	4,902
Depreciation and amortization	**5,143**	3,949
Long-term portion of investment tax credits	**2,063**	(1,671)
Net changes in non-cash working capital balances relating to operations	**26,350**	(3,786)
	61,503	19,262
Financing		
Issuance of common shares	**1,501**	130
Investment		
Additions to capital assets	**(8,451)**	(6,513)
Investment in joint venture	**(9,388)**	—
	(17,839)	(6,513)
Increase in cash	**45,165**	12,879
Cash position, beginning of year	**18,420**	5,541
Cash position, end of year	**$ 63,585**	$ 18,420

Cash is defined as cash and short-term investments, less bank indebtedness.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements
August 31, 1996 and 1995 (tabular amounts in thousands of dollars)

ATI Technologies Inc. (the "Company") was incorporated on August 20, 1985 under the Business Corporations Act, 1982 (Ontario). The principal business activity of the Company is the design, manufacture and sale of personal computer graphics and multimedia products.

1. Significant accounting policies:

(a) Basis of presentation

These consolidated financial statements include the accounts of the Company's wholly-owned European and U.S. subsidiaries.

(b) Short-term investments

Short-term investments are recorded at cost plus accrued interest, which approximates fair market value.

(c) Inventories

Raw materials are stated at the lower of cost and replacement cost. Finished goods and work-in-process are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

(d) Capital assets

Capital assets are recorded at cost and are depreciated at the following rates:

Laboratory and computer equipment	$33\frac{1}{3}$% diminishing balance
Building	5% diminishing balance
Computer software	50% diminishing balance
Customer owned tooling	straight-line over two years
Production equipment	20% diminishing balance
Office equipment	20% diminishing balance
Leasehold improvements	straight-line over term of lease

(e) Investment tax credits

The asset and expense reduction method of accounting for investment tax credits is applied.

(f) Foreign currency translation

The Company's European and U.S. subsidiaries are accounted for as integrated foreign operations. Transactions of the Company and its subsidiaries originating in foreign currencies are translated into Canadian currency at the prevailing rates approximating those at the date of the transaction. Monetary assets and liabilities are translated at the year-end rate of exchange and non-monetary items are translated at historical exchange rates. The resulting net charge or credit is included in net income for the year.

(g) Concentration of credit risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of short-term investments and trade accounts receivable. The Company invests only in high credit quality short-term debt instruments and limits the amount of credit exposure to any one entity. A majority of the Company's trade receivables are derived from sales to original equipment manufacturers, resellers and distributors in the personal computer industry. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. The Company maintains reserves for potential credit losses, and any such losses to date have been within management's expectations.

(h) Research and development expenditures

Research costs, other than capital expenditures, are expensed as incurred. Development costs are expensed as incurred unless they meet the criteria under generally accepted accounting principles for deferral and amortization. The Company has not deferred any such development costs to date.

2. INVENTORIES

	1996	1995
Raw materials and supplies	**$ 8,031**	$38,396
Work-in-process and finished goods	**12,014**	11,940
Inventory-in-transit	**3,636**	4,631
	$23,681	$54,967

3. CAPITAL ASSETS

1996	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Lab and computer equipment	**$13,879**	**$ 7,290**	**$ 6,589**
Building	**7,271**	**975**	**6,296**
Computer software	**7,096**	**4,321**	**2,775**
Customer owned tooling	**1,479**	**289**	**1,190**
Production equipment	**6,798**	**2,653**	**4,145**
Office equipment	**3,722**	**1,806**	**1,916**
Land	**2,363**	**—**	**2,363**
Leasehold improvement	**98**	**51**	**47**
	$42,706	**$17,385**	**$25,321**

1995	Cost	Accumulated Depreciation	Net Book Value
Lab and computer equipment	$11,108	$ 5,595	$ 5,513
Building	7,099	654	6,445
Computer software	5,363	3,009	2,354
Production equipment	5,246	1,895	3,351
Office equipment	3,432	1,490	1,942
Land	2,363	—	2,363
Leasehold improvement	72	27	45
	$34,683	$12,670	$22,013

4. INVESTMENT IN JOINT VENTURE

On September 13, 1995, the Company entered into a joint venture agreement with United Microelectronics Corporation and other investors to build and operate a semiconductor manufacturing

facility in Taiwan, ROC. Under the terms of the agreement, the Company will receive a 5.0% interest in the joint venture plus a guaranteed portion of the production, in exchange for 750 million New Taiwanese Dollars (NTD), payable in three installments. The first installment of 25% was paid in January, 1996. The second installment of NTD 375 million is expected to be paid in January 1997. The final installment of NTD 187.5 million is expected to be paid in July 1997. The investment is recorded at cost.

The Company purchased US dollar forward exchange contracts to hedge the remaining investment obligation of NTD 562.5 million to an equivalent amount of US$20.5 million. As of August 31, 1996, the forward exchange contracts reflected an unrealized loss of approximately $60,000 which has been deferred and, if realized, will be recognized as a component of the cost of the investment.

5. Bank indebtedness

The Company's total credit facility is US$30 million as at August 31, 1996. The loans under the credit facility are secured by inventory, a general assignment of book debts and a general security agreement.

6. Share capital

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

	Common Shares	
Issued:	Number	Amount
Outstanding September 1, 1994	47,250,000	$97,958
Issued for cash	20,000	130
Outstanding August 31, 1995	47,270,000	98,088
Issued for cash	**226,185**	**1,501**
Outstanding August 31, 1996	**47,496,185**	**$99,589**

Employee and director stock option plans

Under an option plan in effect prior to November 19, 1993, certain directors, officers and employees were granted options to purchase 719,084 common shares for consideration ranging from $11.00 to $12.60 per share. All of these options vest no later than August 1997 and, if not exercised, expire by no later than August 1999.

Upon becoming a public company on November 19, 1993, ATI established a Share Option Plan (Plan) for the benefit of directors, officers and employees. This Plan was amended effective December 31, 1995 to comply with new TSE policies. Pursuant to these amendments, the aggregate number of common shares available for issuance pursuant to options granted under the Plan and all other share compensation arrangements (including the prior stock option plan) was limited to 4,725,000 common shares. Under the Plan, the maximum number of common shares issuable under options granted in respect of any one individual may not exceed 5% of the number of common shares issued and outstanding from time-to-time.

Options are granted under the Plan at the discretion of the Board of Directors at exercise prices determined as the weighted average of the trading prices of the ATI common shares on the TSE for the five trading days preceding the effective date of the grant. In general, options granted under the Plan vest

over a period of up to four years from the grant date and expire by no later than the sixth anniversary of the date of grant.

In April 1996, the Board of Directors approved further amendments to the Plan to increase the maximum number of shares available for options granted under the Plan to 7,100,000, subject to regulatory and shareholder approvals. As part of these amendments, the maximum number of shares reserved for issuance to insiders of ATI pursuant to the Plan and all other share compensation arrangements and the number of shares issuable within a one-year period to such persons will be limited to 10% of the number of common shares issued and outstanding from time to time, excluding common shares issued pursuant to share compensation arrangements during the immediately preceding one-year period. Activity in the stock option plans is summarized below:

	Options	Option Exercise Price
Options outstanding August 31, 1993	650,900	\$11.00 to \$12.60
Granted during fiscal 1994	775,984	\$12.60 to \$15.90
Canceled during fiscal 1994	(89,886)	\$11.00 to \$15.90
Options outstanding August 31, 1994	1,336,998	\$11.00 to \$15.90
Granted during fiscal 1995	1,413,550	\$ 6.50 to \$ 9.13
Canceled during fiscal 1995	(564,565)	\$ 6.50 to \$15.90
Exercised during fiscal 1995	(20,000)	\$ 6.50
Options outstanding August 31, 1995	2,165,983	\$ 6.50 to \$15.90
Granted during fiscal 1996	**2,775,250**	**\$ 8.88 to \$11.87**
Canceled during fiscal 1996	**(272,738)**	**\$ 6.50 to \$15.90**
Exercised during fiscal 1996	**(226,185)**	**\$ 6.50 to \$ 9.13**
Options outstanding August 31, 1996	**4,442,310**	**\$ 6.50 to \$15.90**

7. INCOME TAXES

The income tax expense in the consolidated statement of operations varies from the amount that would be computed by applying the basic federal and provincial income tax rates to earnings before income taxes, as shown in the following table:

	1996	1995
Income before income taxes	**\$38,789**	\$23,793
Expected income tax based on combined basic Canadian Federal and Provincial income tax rates	**\$14,120**	\$ 8,660
Tax effect of:		
Large corporations tax	**213**	140
Utilization of tax loss-carryforward of European subsidiary	**(36)**	(245)
Utilization of Ontario tax loss-carryforward	**(2,900)**	(665)
Other	**45**	35
	\$11,442	\$7,925

The Company has tax loss-carryforwards of approximately $2.0 million available to reduce future Ontario taxable income, which expire in the year 2003. In addition, $280,000 of losses incurred by the European sales and marketing subsidiary are available for carryforward indefinitely against German taxable income. The effect of these losses is not reflected in these financial statements.

8. Segmented information

The Company is considered to operate in one industry. The Company's primary operations are located in Canada. The Company sells its products into the personal computer market primarily in the U.S., Europe and the Far East. Export sales accounted for 93% and 92% of net sales in 1996 and 1995, respectively. Approximately 41% and 55% of total sales in 1996 and 1995, respectively, were to United States customers.

9. Net income per share

Net income per common share has been calculated based on the weighted average number of common shares outstanding during the year. Fully diluted net income per share reflects the net income that would have been reported had all outstanding stock options been exercised at the beginning of the year. Fully diluted net income per share for 1996 is $0.56 (1995 – $0.34).

10. Contingencies

The personal computer industry is characterized by increasingly frequent licensing demands and litigation regarding patent and other intellectual property rights. The Company is involved in various matters of this nature. Although the ultimate outcome of these matters is not presently determinable, at this point in time management believes that the resolution of all such pending matters will not have a material adverse effect on the Company's financial position or results of operations.

11. Reclassification

In 1996, the Company reclassified the European sales and marketing subsidiary's salary and other operating costs from administrative to selling expense. Accordingly, the 1995 comparative selling expense has been increased and administrative expense correspondingly decreased by $2,414,000.

Five Year Historical Review

(Thousands of dollars, except per share amounts and other statistics)	1996	1995	1994	1993	1992
		Year Ended August 31			
Operating results					
Sales	**$466,598**	$359,732	$232,280	$221,668	$158,684
Gross margin	**124,988**	86,588	48,568	73,075	51,527
Net income	**27,347**	15,868	(2,691)	2,729	(940)
Operating cash flow	**61,503**	19,262	(54,935)	(700)	1,481
Financial position					
Cash and short-term investments	**$ 73,855**	$ 30,845	$ 29,275	$ —	$ —
Total assets	**208,484**	178,605	146,700	80,381	55,340
Bank indebtedness	**10,270**	12,425	23,734	14,712	5,185
Shareholders' equity	**148,149**	119,301	103,303	8,045	5,316
Working capital	**111,470**	92,655	75,960	(2,257)	8,799
Per share data					
Net income per share	**$ 0.58**	$ 0.34	$(0.06)	n/a	n/a
Market price					
High	**$12.85**	$10.88	$19.88	n/a	n/a
Low	**$ 8.75**	$ 4.55	$ 5.00	n/a	n/a
Close	**$11.00**	$ 9.00	$ 5.13	n/a	n/a
Other					
Total number of employees	**757**	669	594	502	372
Number of employees in R&D	**303**	251	204	181	107
Shares outstanding	**47,496,185**	47,270,000	47,250,000	n/a	n/a

ATI became a public company on November 19, 1993 therefore certain financial information prior to that date is not applicable.

QUARTERLY INFORMATION

(Thousands of dollars, except per share amounts) (unaudited)	November 30 **1995**	1994	February 28 **1996**	1995	May 31 **1996**	1995	August 31 **1996**	1995
Sales	**$119,339**	$72,710	**$115,877**	$93,217	**$115,138**	$95,594	**$116,244**	$98,211
Cost of goods sold	**89,241**	53,759	**85,741**	68,805	**83,283**	75,564	**83,345**	75,016
	30,098	18,951	**30,136**	24,412	**31,855**	20,030	**32,899**	23,195
Expenses								
Selling and marketing	**10,147**	6,321	**9,361**	7,244	**12,960**	7,323	**13,966**	7,847
Research and development	**6,994**	4,109	**7,128**	5,316	**7,424**	5,600	**7,092**	7,422
Administrative	**3,126**	2,575	**4,460**	3,146	**3,152**	3,085	**3,893**	3,298
Interest	**25**	253	**65**	233	**40**	121	**49**	57
	20,292	13,258	**21,014**	15,939	**23,576**	16,129	**25,000**	18,624
	9,806	5,693	**9,122**	8,473	**8,279**	3,901	**7,899**	4,571
Other income	**359**	648	**843**	497	**1,606**	264	**875**	(254)
Income before income taxes	**10,165**	6,341	**9,965**	8,970	**9,885**	4,165	**8,774**	4,317
Income taxes	**3,355**	2,219	**3,288**	3,051	**2,767**	1,400	**2,032**	1,255
Net income	**$ 6,810**	$ 4,122	**$ 6,677**	$ 5,919	**$ 7,118**	$ 2,765	**$ 6,742**	$ 3,062
Net income per share	**$0.14**	$0.09	**$0.14**	$0.12	**$0.15**	$0.06	**$0.15**	$0.07
Retained earnings								
Retained earnings – beginning of period	**$ 21,213**	$ 5,345	**$ 28,023**	$ 9,467	**$ 34,700**	$15,386	**$ 41,818**	$18,151
Net income for the period	**6,810**	4,122	**6,677**	5,919	**7,118**	2,765	**6,742**	3,062
Retained earnings – end of period	**$ 28,023**	$ 9,467	**$ 34,700**	$15,386	**$ 41,818**	$18,151	**$ 48,560**	$21,213

Certain 1995 figures have been restated to conform with 1996 presentation.

Corporate Governance

The Toronto Stock Exchange (TSE) has guidelines for effective corporate governance (TSE Guidelines) addressing matters such as the constitution of and functions to be performed by the Board of Directors and its committees. The TSE requires that each listed corporation disclose its approach to corporate governance with reference to these guidelines on an annual basis.

Board mandate The Company's Board of Directors is ultimately responsible for supervising the management of the business and affairs of the Company and to act in the best interests of the Company. The Board of Directors discharges its responsibility directly and through the Audit Committee and Compensation Committee. The Board of Directors meets regularly to review the business operations and financial results of the Company. Meetings of the Board of Directors include regular meetings with management to discuss specific aspects of the operations of the Company. There were 12 meetings of the Board of Directors held during fiscal 1996.

Specific responsibilities of the Board of Directors include:

- reviewing and approving the Company's strategic and operating plans;
- reviewing and approving the Company's capital expenditure policy as well as those expenditures which exceed the limits for management approval;
- reviewing and approving significant operational and financial matters and providing direction to management on these matters;
- reviewing and approving corporate objectives and goals applicable to the senior management personnel of the Company; and
- involvement in the hiring and replacement of the senior management of the Company.

Board composition At the start of fiscal 1996 the Board of Directors was composed of four members of whom two were outside directors and one of whom was an "unrelated" director within the meaning of the TSE Guidelines. In November of 1995, a fifth outside and unrelated director was appointed by the directors to fill a vacancy. An "unrelated" director, under the TSE Guidelines, is a director who is independent of management and is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Company, other than interests and relationships arising from shareholding. Applying that definition rigorously to fiscal 1996, the Company had two unrelated directors for substantially all of fiscal 1996. Currently, the two unrelated directors are Mr. Horn and Dr. Fleck. Mr. Fox is an outside director but not unrelated as a result of the continuing legal services he provides to the Company.

For substantially all of fiscal 1996, the Company had a significant shareholder, Mr. K.Y. Ho, within the meaning of the TSE Guidelines as a result of a voting trust agreement whereby Mr. Ho was entitled to vote approximately 60 percent of the issued and outstanding shares of the Company. This voting trust agreement expired in August 1996.

The Company believes that the investment of minority shareholders in the Company is fairly reflected in the composition of the Board of Directors since two of the five directors during substantially all of fiscal 1996 were unrelated.

The Board does not have a Chairman separate from management. When required, the Board of Directors functions independent of management by referring matters to an independent committee having a majority of members who are unrelated directors and by holding meetings without management present.

BOARD COMMITTEES For substantially all of fiscal 1996, each of the Audit Committee and the Compensation Committee were composed of three outside directors of which two were unrelated directors, consistent with the TSE Guidelines.

The Audit Committee met four times during the year to review the interim and annual financial statements and to make recommendations to the Board of Directors. When required, the Audit Committee meets directly with the auditors of the Company. The Audit Committee also makes recommendations as to the implementation and operation of internal control and financial reporting systems.

The Compensation Committee is involved with all compensation issues regarding directors and senior management of the Company, including establishing the remuneration of the President and CEO and all senior management who report directly to the President and CEO, reviewing and making recommendations concerning the operation of the Company's Stock Option Plan and Stock Purchase Plan and reporting to shareholders concerning executive compensation.

INVESTOR RELATIONS The Company has an Investor Relations department responsible for liaising with investors and receiving shareholder feedback and comments. The Company believes that in this manner shareholder concerns are dealt with appropriately when they arise.

OTHER MATTERS Although neither a corporate governance committee nor a nominating committee has yet been formed, the Board of Directors and its committees had, and continue to have, responsibility for nominating new directors, assessing the effectiveness of the Board as a whole and the contribution of individual directors, reviewing the adequacy and form of compensation of directors, providing an orientation and education program for new recruits to the Board and approving requests of directors to engage outside advisors at the expense of the Company.

Directors and Officers

Board of directors

Jim Fleck
Faculty of Management,
University of Toronto ○●

Paul Fox
Barrister & Solicitor ○●

K.Y. Ho
President and Chief Executive Officer,
ATI Technologies Inc.

Alan Horn
Vice-President, Finance and
Chief Financial Officer
Rogers Communications Inc. ○●

Lee Lau
Vice President, Strategic Planning,
ATI Technologies Inc.

○ *Member of the Audit Committee*
● *Member of the Compensation Committee*

Corporate officers

K.Y. Ho
President and Chief Executive Officer

Adrian Hartog
Vice President, Engineering

Benny Lau
Vice President, Product Planning

Lee Lau
Vice President, Strategic Planning

Lance McIntosh
Vice President, Finance and Administration

Henry Quan
Vice President, Marketing

Gerd Queisser
Vice President, European Operations

Dean Blain
Corporate Secretary

Biographies

Jim Fleck
Jim Fleck currently teaches at the Faculty of Management, University of Toronto. Until August 1994, he was Chairman and CEO of Fleck Manufacturing Inc. with plants in Canada, Mexico and the USA. He was Chairman of Alias Research Inc. from 1992 to 1995, and Director of CUC Ltd. until May 1995.

Paul Fox
Paul Fox has operated his legal practice as a sole practitioner since 1992. Prior to that time Mr. Fox was a partner of Smith Lyons, a major law firm in Toronto. Mr. Fox has provided legal services to ATI since 1987.

K.Y. Ho
K.Y. Ho is one of the founders of ATI. Mr. Ho, an Electrical Engineer, has more than twenty years experience in the management, engineering, manufacturing and material and quality control areas of the computer industry. Mr. Ho previously worked at several leading computer manufacturers in Hong Kong.

Alan Horn
Alan Horn became a director of ATI in November 1993. He is Vice-President, Finance and Chief Financial Officer of Rogers Communications Inc. A Chartered Accountant, who was previously a tax partner with KPMG, Mr. Horn also serves on a number of public and private company boards.

Lee Lau
Lee Lau is one of the founders of ATI. Mr. Lau is a Professional Engineer who has worked in the computer industry for over ten years. Prior to ATI, Mr. Lau held the position of Design Engineer with Mitel and ESE Systems.

Corporate Information

All inquiries for financial information should be directed to:

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FaxInfo: ext. 8206, document #6000
Web site: www.atitech.ca

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Facsimile: (714) 631-3455

ATI Research, Inc.
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Capital stock
At August 31, 1996 the issued capital stock of the Company comprised 47,496,185 fully paid common shares (47,270,000 at August 31, 1995).

Listing of common shares
The common shares of the Company are listed on The Toronto Stock Exchange under the stock symbol "ATY".

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Chartered Accountants
Yonge Corporate Centre
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North York, Ontario, Canada M2P 2B8

Bankers
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